KEY MESSAGES

OVERALL MESSAGE

There is a strong consensus that an expanding and prosperous industrial sector is crucial to the structural transformation of African economies and that, given the ubiquity of market failures, industrial policy interventions are usually required. Markets by themselves are also generally incapable of undertaking the kinds of structural transformation needed to move from low- to high-productivity activities.

The focus should therefore be on designing industrial policy institutions and processes capable of supporting industrial transformation. One key is to transcend blueprint approaches—where industrial policy is simply a set of non-contextual, predefined interventions—and shift towards building a set of institutions that generate processes that can address industry's ever-changing exigencies.

Yet many African countries continue to adopt a blueprint approach to industrialization, without developing an adequate institutional framework. That approach has proved ineffective in addressing the industrializing challenges these countries face.

The Economic Report on Africa 2014—Dynamic Industrial Policy in Africa: Innovative Institutions, Effective Processes and Flexible Mechanisms adopts an institutional approach to show how industrial policy can be designed and implemented. Based on various successful country experiences from inside and outside the continent, and on 11 African country studies, the report calls on African countries to adopt dynamic industrial policies with flexible processes and mechanisms that will help them transform their economies and bring about inclusive and sustainable economic and social development. This is the only way for the continent to reduce its heavy dependence on primary commodities, create decent jobs, reduce poverty and narrow inequalities.

KEY MESSAGES

1. AFRICAN COUNTRIES ARE GROWING, BUT THEIR GROWTH HAS BEEN NON-INCLUSIVE

The continuing limited impact of commodity-driven growth on employment generation and social development has been exacerbated by the failure of most African economies to structurally transform themselves—hence the failure to experience inclusive growth. This failure has been worsened by trends in the world economy, particularly volatile commodity prices, which have highlighted the perils of strong economic growth without concurrent industrial development and structural transformation. Africa's share in world trade is still very low, and its exports are concentrated in natural resources and minerals. High trade barriers hinder intra-African trade.

2. MANY AFRICAN COUNTRIES HAVE EXPERIENCED STRUCTURAL TRANSFORMATION IN REVERSE

Structural transformation is linked to reallocating resources from low- to higher productivity activities between and within, especially, manufacturing and modern services, leading to higher economy-wide productivity and progressively raising income. In Africa, however, resources have often moved from higher to lower productivity sectors, particularly to the informal sector, reversing structural transformation and slowing (or even reversing) productivity growth. Factors of production such as labour have shifted, particularly from agriculture and manufacturing to services, leading to relatively low productivity and at times to declining employment in agriculture and manufacturing.

3. AFRICAN COUNTRIES NEED A NEW INDUSTRIAL POLICY FRAMEWORK

Such a framework should help identify industrial gaps and design, build and effectively operate state or quasi-state bodies to support industrial transformation. However, the current framework fails to deliver. It suffers from problems related to the scope, design and authority of industrial policy organizations (IPOs), and to their incentives and operating rules. It also labours under poor systems of IPO communication (often with the private sector), overlapping jurisdictions, conflicting functions and other coordination failures—and sometimes too much focus on donor-driven objectives.

4. SUCCESSFUL FRAMEWORKS FOR INDUSTRIAL POLICY ARE DYNAMIC AND ORGANIC

Rather than a static set of interventions, industrial policy should be constantly reevaluated and changed to fit the ever-changing needs of industry. Similarly, IPOs should regularly monitor their strategies' effectiveness, adjusting them when they fall below par.

Equally, goals should be periodically measured against changes in the private sector and revised to match them.

5. PUBLIC–PRIVATE DIALOGUE IS ESSENTIAL TO IDENTIFY OBSTACLES

Subsequently, industrial policy design should arise from a system of organized dialogue between the government and key private sector stakeholders. Following this approach, industrial policy emerges through a process of discovery of constraints on industrial development.

6. "EMBEDDED AUTONOMY" IS AN IMPERATIVE FOR DYNAMIC INDUSTRIAL POLICY

Given the importance of public–private dialogue, states should ensure that their bureaucrats have good relations with key private actors and understand industry. To know what interventions are needed and how they must be changed to meet industry's needs, governments must put in place a strong feedback loop, by structuring IPOs so that the private sector is involved at all levels of industrial policymaking. Crucially, IPO staff should not be "captured" by the private sector, but be able to act independently.

7. EFFECTIVE INDUSTRIAL POLICY FRAMEWORKS REQUIRE HIGH-LEVEL COORDINATION AND POLITICAL SUPPORT

Action plans and budget implications ought to be discussed at the cabinet level for approval and support. Successful industrial policy frameworks generally have close links to and approval from high levels of government, as well as associated political support. (Conversely, many good policies are not well executed in Africa because they lack government support.)

8. REGULATORY EFFECTIVENESS IS NEEDED TO ENSURE POLICY COHERENCE

This requires governments to consider all possible impacts (intended and unintended) of new industrial policy on large and small private firms in all sectors. A key central agency (or subagency) should review proposed and current regulations to ensure that they do not conflict with other industrial policies.

9. GOVERNMENTS NEED TO INCREMENTALLY CREATE "POCKETS OF EFFICIENCY" WHEN THEY LACK BUREAUCRATIC EXPERIENCE

These pockets require the support of the ruling elites. Similarly, political coalitions may be needed to support industrialization in key sectors and to slowly expand policy into new areas.

10. INTEGRATED DEVELOPMENT POLICY FRAMEWORKS CAN PROMOTE INDUSTRIAL POLICY EFFECTIVENESS

Industrial policy is unlikely to work without complementary policies and institutions supporting its objectives. Examples include macroeconomic support and development planning, gains to productive capabilities and competitiveness, stronger infrastructure, well-applied technology and innovation, finance for industrialization (including new, especially innovative domestic, sources), and regional integration.